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FISCAL IMPACT STATEMENT

LS 7365

BILL NUMBER: HB 1636

NOTE PREPARED: Feb 25, 2009

BILL AMENDED: Feb 19, 2009

SUBJECT: Small Business Loan Program.

FIRST AUTHOR: Rep. Bardon

FIRST SPONSOR: Sen. Leising

BILL STATUS: As Passed House

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
☐ **FEDERAL**

IMPACT: State

Summary of Legislation: (Amended) The bill establishes the Small Business Loan Program administered by the Indiana Finance Authority (IFA). It establishes the Small Business Loan Fund and authorizes the IFA to transfer money in the Fund to financial institutions for deposit at reduced interest rates. The bill requires the financial institution to loan the money to approved small business development projects. It provides that the interest rate charged to the small business may not exceed the rate payable to the IFA plus 3%. It also provides that the maximum amount that may be deposited for a particular small business development project is \$1,000,000. The bill requires an annual report from the entity responsible for carrying out the duties of the Indiana Economic Development Corporation concerning small business development.

Effective Date: July 1, 2009.

Explanation of State Expenditures: (Revised) *Indiana Finance Authority (IFA)*: The bill establishes the Small Business Loan Program and the Small Business Loan Fund both to be administered by the IFA. Money in the Fund would be used by the IFA to make loans under the program. The Fund is non-reverting and money in the Fund is to be used to conduct the Small Business Loan Program. The Fund consists of appropriations; gifts, grants, and donations; investment income earned on the Fund's assets; and repayments of loans from the Fund. The bill allows the IFA to use interest earned on the Fund to pay for administrative expenses of the Fund. The bill requires the IFA to annually report on its activities relative to the Program to the Governor, Budget Committee, and the General Assembly. The bill does not make an appropriation to the Fund. The January 5, 2009, state staffing report indicates that the IFA has 25 full time employees, and one vacant full time position.

(Revised) *Indiana Economic Development Corporation (IEDC)*: The bill requires the IEDC to review the

annual report of the IFA and evaluate the effectiveness of the Small Business Loan Program. The bill requires the IEDC to submit its findings to the Governor, the Budget Committee, the IFA, and the General Assembly.

Background on Small Business Loan Program: Under the Small Business Loan Program, loans would be made to qualifying small businesses by financial institutions participating in the program. The loans would be made with money deposited in the participating financial institutions by the IFA. The loans would be for small business start up or expansion projects that propose to create new jobs in Indiana. To qualify for a loan a small business must be an independently owned and operated Indiana business that employs no more than 100 employees and has gross annual receipts not exceeding \$5 M. Loan proceeds may be used by a small business to purchase real property; construct, renovate, or expand a building; purchase equipment, furniture, fixtures, or inventory; or for working capital.

The bill requires the small business to apply to, and be approved for a loan by, a participating financial institution. The financial institution must then apply to, and be approved for the deposit by, the IFA. The bill requires a participating financial institution to pay interest on the deposit to the IFA. The maximum rate that the IFA may require is equal to the 52-week U. S. Treasury bill rate effective the day of the deposit minus 1.5%. (Note: The 52-week U. S. Treasury bill rate on January 9, 2009 was 0.4%. The high in 2008 was 2.58% on June 16, 2008.) The bill allows a participating financial institution to charge a maximum interest rate on a loan equal to the rate payable to the IFA on the deposit plus 3%. Thus, if the pertinent Treasury bill rate is 2.5%, the IFA could charge a maximum rate of 1% on a deposit and a participating financial institution could charge a maximum rate of 4% on loan. The maximum deposit that could be made by the IFA for a particular small business development project is \$1 M.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Indiana Finance Authority; Indiana Economic Development Corporation.

Local Agencies Affected:

Information Sources:

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